

## SUPPLEMENTAL MATERIAL

0590

(Revised 1996)

## SUMMARY OF THE STATE BUDGET PROCESS

0590.1

(Revised 1996)

(The following description of the California state budget process draws primarily from a paper by Dennis Amundson, former chief consultant to the Assembly Minority Ways and Means Committee.) **See *Calendar of California State Budget Process* ([see exhibit](#)).** The Exhibit does contain committee titles that are no longer used. The Senate Finance Committee was divided into Senate Appropriations and the Senate Budget and Fiscal Review Committee (Budget and Review are responsible for the State budget). The Assembly Ways and Means Committee was divided into Assembly Appropriations and the Assembly Budget Committee (Budget Committee is responsible for the State budget).

Through the annual state budget, the Governor presents to the Legislature his recommendations for the operation of state government for the ensuing fiscal year. It provides, as passed by the Legislature, the legal basis for the expenditure of public funds and an expression of legislative policy. The state budget summarizes the operating programs of the various agencies of state government and serves as a plan against which agency accomplishments may be measured.

The California Constitution requires the Governor to submit to the Legislature a budget containing a complete plan and itemized statement of all proposed state expenditure and estimates of all revenues for the ensuing fiscal year.

The constitution also requires the Governor to either submit a balanced budget or to recommend the additional revenue sources needed to carry out his or her program. The Legislature, on the other hand, is not required to return a balanced budget to the Governor.

The power of the Legislature over state fiscal affairs is established in Article IV, Section 2, of the constitution: "No money shall be drawn from the treasury but in consequence of appropriation made by law." The legislative branch of state government holds the exclusive power of deciding how, when, and for what purposes public funds shall be spent.

With the advent of program budgeting, the budget process has become a year-round procedure. Nevertheless, the practical and necessary device of the "fiscal year" imposes a cyclical pattern on the budget process.

The constitution requires the Governor to submit his budget to the Legislature within the first 10 days of each calendar year. To meet this deadline, the various state departments submit their proposed budgets to the Department of Finance and agency secretaries by early September of each year. This schedule requires most departments to begin work on their requests in May or June - 13 to 14 months before the beginning of the fiscal year for which the budget is intended.

The preparation of the budget follows an established pattern. Each department prepares its proposed budget in accordance with the policies of the Governor and anticipated economic conditions and price levels as forecast by the Department of Finance. At this point the departments' proposals are often "shopping lists," padded with all of the things that department heads would like to do.

Trends in a given department's workload, together with new program proposals, are analyzed by agency secretaries and the Department of Finance. After lengthy hearings, conferences, and negotiations, a budget level is proposed to the Governor's cabinet for final approval.

The Legislative Analyst, although not a participant in the preparation of the Governor's budget, usually works closely with the Department of Finance during the last phases of the proposed budget's development. As final budget-unit decisions are reached by the Governor, confidential copies are forwarded to the Legislative Analyst so that work may begin on the preparation of the annual "Analysis of the Budget Bill." This document, released in mid-February, serves as the principal source of recommendations for the fiscal committees of each house of the Legislature during their four-month review of the Governor's proposed budget.

The State Constitution requires that the Governor's budget as submitted to the Legislature be accompanied by an appropriation bill covering the proposed expenditures. This same section also requires the budget bill to be introduced immediately into each house of the Legislature by the respective chairmen of the committees responsible for appropriations. At this time the bill becomes the property of the Legislature, and it follows much the same procedural course as any other bill.

Any member of the Legislature may propose amendments to the budget bill. These amendments may be presented to the appropriate subcommittees, the main committee, or to the respective house during consideration of the bill on the floor.

Until the budget bill has been enacted, no other appropriation bill over a specified dollar amount can be passed under normal circumstances. Therefore, special appropriation measures must usually await consideration until the closing days of the session.

As all appropriations affect state finances, whether in the budget bill or a special bill, they must be referred to the appropriate committee in each house.

As a complete operational plan for the state, the budget embraces many substantive and complete issues. For this reason, both the Assembly Budget Committee (21 members) and the Senate Budget and Fiscal Review Committee (13 members) divide consideration of the budget bill among several subcommittees.

The Assembly Budget subcommittees and Senate Budget and Fiscal Review subcommittees begin their deliberations simultaneously early in February. Each subcommittee conducts open public hearings on its assigned portions of the budget bill, calling upon the agency concerned, the Legislative Analyst, the Department of Finance and subcommittee staff to provide assistance and information. Subcommittee hearings are publicized at least one week in advance.

After two months or more of intensive deliberation, the several subcommittees publish final reports and forward their recommendations to the parent committee. During any given session, the subcommittees will augment, delete or modify several hundred of the Governor's proposals. The main committees may again hear controversial items and affirm or modify the recommendations of the subcommittees. As a matter of tradition, however, the full fiscal committees of each house will generally make very few changes in subcommittee reports.

Upon completion of the hearings by the main committees, the budget bills are reported to their respective floors for consideration. Under a 1978 change in the Legislature's joint rules, both budget versions must be approved by their house of origin and sent to the other, where they are referred to the appropriate fiscal committee.

Assuming that the Assembly version, for example, is determined to be the principal budget vehicle, it is sent to the Senate Budget and Fiscal Review Committee, where a simple technical amendment is made. After amendment and passage by the full Senate, the bill is returned to the Assembly for concurrence in Senate amendments. Without exception, the Assembly has always refused to concur in adopting the amendments, thereby forcing the establishment of a conference committee for reconciliation of the differences between the two houses. (The above process operates on a parallel basis in the opposite house if the Senate version is determined to be the principal budget vehicle in a given year.)

Under the joint rules of the two houses, the conference committee on the budget is composed of three senators and three assembly members who are charged with the responsibility to negotiate and settle differences between the two versions of the budget.

Traditionally, the chairman and vice-chairman of the appropriations committees of each house, plus one additional member of each house serve as conferees. The conference committee can only consider differences between the two budget versions and cannot increase an item of expenditure which exceeds either house's version.

The conference committee usually meets eight hours per day for a one-to two-week period beginning late in May or early in June, reviewing every item of difference in the two budget versions. If the committee cannot reach agreement after 15 days, it is dissolved and a new conference committee is formed. After reaching agreement, the conference committee members, or a minimum of two members from each house, sign their report and return the compromise version of the budget to the entire body of each house for a final vote.

If the compromise budget as proposed by the conference committee fails to receive the necessary two-thirds vote, a second conference committee is appointed. If the second conference committee budget is also rejected, a third committee may be appointed. Similar to all other measures, the budget bill would be "dead" if denied passage after three conference committees. The constitutional deadline for passage of the budget by the Legislature is June 15 of each year; that deadline is rarely met.

After the budget is passed by the Legislature, the Governor has 12 days to study it. During this time, he is free to eliminate or reduce any item or amount. The Governor may not, however, increase an appropriation or change its purpose.

The Legislature may, by a two-thirds vote of each house, override the Governor's veto of a given budget item. Veto override attempts must be initiated in the house of origin of the budget bill.

California's budget system includes numerous built-in safeguards. These extend well beyond those devices needed to assure financial integrity. Throughout the period during which the budget is in effect, the execution of the budget plan is subject to surveillance by both the executive and legislative branches.

The Audits Division of the Department of Finance is responsible for the post-audit of all state agencies. The Budget Division of the Department of Finance maintains surveillance of the operations of state agencies to assure that programs are conducted in accordance with legislative intent.

The State Controller has the responsibility for assuring that public moneys are expended for the purposes for which they were appropriated. The constitution and statutes require the controller to determine the legality and validity of all payments from the state treasury.

In 1941 the Legislature established a Joint Legislative Budget Committee and employed a small fiscal staff, headed by the Legislative Analyst, to provide members with an independent source of information on the budget. The committee staff, working under the direction of the Legislative Analyst, consists of approximately 50 budget analysts and specialists charged with ascertaining facts and making recommendations to the Legislature concerning the state budget, the revenues and expenditures of the state, and the organizations and functions of the state with "a view of reducing the costs of government and seeking greater efficiency and economy."

As a matter of practice, the Joint Legislative Budget Committee confines itself to conducting special inquiries into selected areas of state operations and to establishing general policies to govern the Legislative Analyst's analysis of the budget bill. The detailed review of the budget and the formulation of recommendations on specific appropriations has been left to the Assembly Budget Committee and the Senate Budget and Fiscal Review Committee. The Legislative Analyst directs the preparation of a detailed analysis of the budget bill for the Legislature, and with staff is present at committee hearings to explain recommendations and provide additional information.

The Auditor General's Office was created by statute in 1955 to provide the Legislature with independent post audits of state agencies to assure that funds are spent according to law and for the purposes for which they are appropriated. The Auditor General is appointed by and responsible to the Joint Legislative Audit Committee. With a staff of 50 auditors and analysts, the Auditor General ascertains facts, reviews financial reports, conducts numerous special investigations, and makes recommendations to the Legislature concerning the revenues and expenditures.

NOTE: All bills containing an appropriation, as well as bills that do not have a specific appropriation but do have a fiscal effect, must be referred to the appropriate fiscal committee in both houses. (The determination of fiscal effects is not restricted to impact on state finances, but can apply to impacts on federal funding sources and such entities as local government and industry.)

The budget bill is considered by the Assembly Budgets Committee and the Senate Budget and Fiscal Review Committee. The Assembly Budget Committee also considers all bills containing an appropriation for a new program or an increased level of services for an existing program and bills with fiscal implications. In the other house, the budget bill, deficiency bills, and other bills which affect the current or future budget are considered by the Senate Fiscal and Budget Review committee. All other bills that contain specific appropriations or otherwise have fiscal effects are considered by the Senate Appropriations Committee.

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